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OFS Capital Corp
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 814-00813

OFS CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 46-1339639
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

10 S. Wacker Drive, Suite 2500
Chicago, Illinois 60606
(Address of principal executive office)

(847) 734-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the issuer's Common Stock, \$0.01 par value, outstanding as of August 1, 2017 was 13,331,665.

OFS CAPITAL CORPORATION

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Defined Terms

We have used "we," "us," "our", "our company", and "the Company" to refer to OFS Capital Corporation in this report. We also have used several other terms in this report, which are explained or defined below:

1940 Act	Investment Company Act of 1940, as amended
Administration Agreement	Administration agreement between the Company and OFS Services
Annual Distribution Requirement	Distributions to our stockholders, for each taxable year, of at least 90% of our ICTI
ASC	Accounting Standards Codification, as issued by the FASB
ASC Topic 820	ASC Topic 820, "Fair Value Measurements and Disclosures"
ASU	Accounting Standards Updates, as issued by the FASB
BDC	Business Development Company under the 1940 Act
BLA	Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility
Board	The Company's board of directors
Code	Internal Revenue Code of 1986, as amended
DRIP	Distribution reinvestment plan
EBITDA	Earnings before interest, taxes, depreciation, and amortization
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
GAAP	Accounting principles generally accepted in the United States
HPCI	Hancock Park Corporate Income, Inc., a non-traded BDC with an investment strategy similar to the Company for whom OFS Advisor serves as investment adviser
ICTI	Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses
Investment Advisory Agreement	Investment advisory agreement between the Company and OFS Advisor
LIBOR	London Interbank Offered Rate
OFS Advisor	OFS Capital Management, LLC, a wholly-owned subsidiary of OFSAM and registered investment advisor under the 1940 Act
OFS Capital WM	OFS Capital WM, LLC, a wholly-owned investment company subsidiary
OFS Services	OFS Capital Services, LLC, a wholly-owned subsidiary of OFSAM and affiliate of OFS Advisor
OFSAM	Orchard First Source Asset Management, LLC, an established investment platform focused on meeting the capital needs of middle-market companies
PWB Credit Facility	Senior secured revolving credit facility between the Company and Pacific Western Bank, as lender.
RIC	Regulated investment company under the Code
SBA	U.S. Small Business Administration
SBIC	A fund licensed under the SBA small business investment company program
SBIC Acquisition	The Company's acquisition of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC on December 4, 2013
SBA Act	Small Business Investment Act of 1958
SBIC I LP	OFS SBIC I, LP, a wholly-owned SBIC subsidiary of the Company
SEC	U.S. Securities and Exchange Commission

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “would,” “should,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

• our limited experience operating a BDC or an SBIC, or maintaining our tax treatment as a RIC under Subchapter M of the Code;

• our dependence on key personnel;

• our ability to maintain or develop referral relationships;

• our ability to replicate historical results;

• the ability of OFS Advisor to identify, invest in and monitor companies that meet our investment criteria;

• actual and potential conflicts of interest with OFS Advisor and other affiliates of OFSAM;

• constraint on investment due to access to material nonpublic information;

• restrictions on our ability to enter into transactions with our affiliates;

• limitations on the amount of SBA-guaranteed debentures that may be issued by an SBIC;

• our ability to comply with SBA regulations and requirements;

• the use of borrowed money to finance a portion of our investments;

• competition for investment opportunities;

• the ability of SBIC I LP any other portfolio companies to make distributions enabling us to meet RIC requirements;

• our ability to raise capital as a BDC;

• the timing, form and amount of any distributions from our portfolio companies;

• the impact of a protracted decline in the liquidity of credit markets on our business;

• the general economy and its impact on the industries in which we invest;

• uncertain valuations of our portfolio investments; and

• the effect of new or modified laws or regulations governing our operations.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include, among others, those described or identified in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q.

We have based the forward-looking statements on information available to us on the date of this Quarterly Report on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The forward-looking statements and projections contained in this Quarterly Reports on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OFS Capital Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

	June 30, 2017	December 31, 2016
	(unaudited)	
Assets		
Investments, at fair value:		
Non-control/non-affiliate investments (amortized cost of \$213,626 and \$178,279, respectively)	\$ 200,020	\$ 173,219
Affiliate investments (amortized cost of \$64,922 and \$76,306, respectively)	70,982	81,708
Control investments (amortized cost of \$22,148 and \$24,722, respectively)	25,906	26,700
Total investments at fair value (amortized cost of \$300,696 and \$279,307, respectively)	296,908	281,627
Cash and cash equivalents	46,920	17,659
Interest receivable	1,250	1,770
Prepaid expenses and other assets	3,882	3,974
Total assets	\$ 348,960	\$ 305,030
Liabilities		
Revolving line of credit	\$ 6,000	\$ 9,500
SBA debentures (net of deferred debt issuance costs of \$2,847 and \$3,037, respectively)	147,033	146,843
Interest payable	1,596	1,599
Management and incentive fees payable	1,484	2,119
Administration fee payable	369	435
Accrued professional fees	422	477
Other liabilities	60	279
Total liabilities	156,964	161,252
Commitments and contingencies (Note 6)		
Net assets		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of June 30, 2017, and December 31, 2016, respectively	\$ —	\$ —
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,331,655 and 9,700,297 shares issued and outstanding as of June 30, 2017, and December 31, 2016, respectively	133	97
Paid-in capital in excess of par	187,791	134,300
Accumulated undistributed net investment income	6,888	6,731
Accumulated undistributed net realized gain	972	330
Net unrealized appreciation (depreciation) on investments	(3,788)	)2,320
Total net assets	191,996	143,778
Total liabilities and net assets	\$ 348,960	\$ 305,030
Number of shares outstanding	13,331,655	9,700,297
Net asset value per share	\$ 14.40	\$ 14.82

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries
 Consolidated Statements of Operations (unaudited)
 (Dollar amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Investment income				
Interest income:				
Non-control/non-affiliate investments	\$4,681	\$4,431	\$9,522	\$9,167
Affiliate investments	1,708	1,671	3,586	3,357
Control investment	581	490	1,143	831
Total interest income	6,970	6,592	14,251	13,355
Dividend income:				
Non-control/non-affiliate investments	129	134	212	162
Affiliate investments	312	294	702	823
Control investments	137	111	170	111
Total dividend income	578	539	1,084	1,096
Fee income:				
Non-control/non-affiliate investments	169	517	325	995
Affiliate investments	176	7	234	39
Control investments	85	28	118	41
Total fee income	430	552	677	1,075
Total investment income	7,978	7,683	16,012	15,526
Expenses				
Interest expense	1,339	1,308	2,726	2,616
Management fees	1,224	1,089	2,416	2,204
Incentive fee	(22)	)857	1,159	1,590
Professional fees	293	303	556	617
Administration fee	307	326	708	754
General and administrative expenses	521	343	791	633
Total expenses	3,662	4,226	8,356	8,414
Net investment income	4,316	3,457	7,656	7,112
Net realized and unrealized gain (loss) on investments				
Net realized gain on non-control/non-affiliate investments	163	—	163	2,566
Net realized gain on affiliate investments	874	—	874	—
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(5,505)	)962	(8,546)	(3,130)
Net change in unrealized appreciation/depreciation on affiliate investments	(3,366)	)296	658	442
Net change in unrealized appreciation/depreciation on control investment	1,237	(377)	)1,780	(373)
Net gain (loss) on investments	(6,597)	)881	(5,071)	(495)
Net increase (decrease) in net assets resulting from operations	\$(2,281)	)\$4,338	\$2,585	\$6,617
Net investment income per common share – basic and diluted	\$0.33	\$0.36	\$0.67	\$0.73

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Net increase (decrease) in net assets resulting from operations per common share – basic and diluted	\$(0.17)	\$ 0.45	\$ 0.23	\$ 0.68
Distributions declared per common share	\$0.34	\$ 0.34	\$ 0.68	\$ 0.68
Basic and diluted weighted average shares outstanding	13,197,759	12,692,346	11,458,790	10,691,764

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries
 Consolidated Statements of Changes in Net Assets (unaudited)
 (Dollar amounts in thousands)

	Six Months Ended June 30,	
	2017	2016
Increase in net assets resulting from operations:		
Net investment income	\$7,656	\$7,112
Net realized gain on investments	1,037	2,566
Net change in unrealized appreciation/depreciation on investments	(6,108)	(3,061)
Net increase in net assets resulting from operations	2,585	6,617
Distributions to stockholders from:		
Accumulated net investment income	(7,830)	(6,590)
Total distributions to stockholders	(7,830)	(6,590)
Common stock transactions:		
Public offering of common stock, net of expenses	53,373	—
Reinvestment of stockholder distributions	90	41
Net increase in net assets resulting from capital transactions	53,463	41
Net increase in net assets	48,218	68
Net assets:		
Beginning of period	\$143,778	\$143,012
End of period	\$191,996	\$143,080
Accumulated undistributed net investment income	\$6,888	\$5,160
Common stock activity:		
Public offering of common stock	3,625,000	—
Common stock issued from reinvestment of stockholder distributions	6,358	3,152
Shares issued and outstanding at beginning of period	9,700,297	9,691,170
Shares issued and outstanding at end of period	13,331,655	9,694,322

See Notes to Financial Statements.

OFS Capital Corporation and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(Dollar amounts in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$2,585	\$6,617
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net realized gain on investments	(1,037)	(2,566)
Net change in unrealized appreciation/depreciation on investments	6,108	3,061
Amortization of Net Loan Fees	(669)	(831)
Amendment fees collected	27	71
Payment-in-kind interest and dividend income	(1,428)	(1,193)
Amortization of deferred debt issuance costs	260	241
Amortization of intangible asset	98	98
Purchase and origination of portfolio investments	(72,219)	(20,290)
Proceeds from principal payments on portfolio investments	51,409	31,558
Proceeds from sale or redemption of portfolio investments	2,400	2,115
Changes in operating assets and liabilities:		
Interest receivable	520	—
Interest payable	(3)	43
Management and incentive fees payable	(635)	(291)
Administration fee payable	(66)	(108)
Other assets and liabilities	(297)	(102)
Net cash provided by (used in) operating activities	(12,947)	18,423
Cash flows from financing activities		
Proceeds from common stock offering, net of expenses	53,448	—
Distributions paid to stockholders	(7,740)	(6,549)
Borrowings under revolving line of credit	11,000	—
Repayments under revolving line of credit	(14,500)	—
Net cash provided by (used in) financing activities	42,208	(6,549)
Net increase in cash and cash equivalents	29,261	11,874
Cash and cash equivalents — beginning of year	17,659	32,714
Cash and cash equivalents — end of year	\$46,920	\$44,588
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$2,469	\$2,331
Distributions paid by issuance of common stock	90	41

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

June 30, 2017

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Armor Holdings II LLC	Other Professional, Scientific, and Technical Services	10.25%	(L +9.00%)	12/26/2020	\$ 3,500	\$ 3,472	\$ 3,500	1.8 %
AssuredPartners, Inc	Insurance Agencies and Brokerages	10.23%	(L +9.00%)	10/20/2023	5,000	4,865	5,100	2.7
Avison Young Canada, Inc.	Offices of Real Estate Agents and Brokers	9.50%	N/A	12/15/2021	4,000	3,931	4,029	2.1
Senior Secured Loan (4) (5)								
BCC Software, LLC (4)	Custom Computer Programming Services	9.23%	(L +8.00%)	6/20/2019	6,852	6,788	6,826	3.6
Senior Secured Loan (Revolver) (9) (3)		N/A	(L +8.00%)	6/20/2019	—	(6)	(4)	—
					6,852	6,782	6,822	3.6
BJ's Wholesale Club, Inc.	Warehouse Clubs and Supercenters	8.71%	(L +7.50%)	2/3/2025	7,300	7,267	7,157	3.7
Community Intervention Services, Inc. (4)	Outpatient Mental Health and Substance Abuse Centers	7.0%	N/A	1/16/2021	8,274	7,639	3,285	1.7
Subordinated Loan (6) (10)		cash / 6.0%						

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		PIK						
Common equity (Success Fee) (9)				—	—	—	—	
				8,274	7,639	3,285	1.7	
Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages							
Senior Secured Loan		11.05%	(L +9.75%)	5/8/2019	7,850	7,814	7,752	4.0
Constellis Holdings, LLC	Other Justice, Public Order, and Safety Activities							
Senior Secured Loan		6.30%	(L +5.00%)	4/21/2024	4,975	4,926	4,949	2.6
Senior Secured Loan		10.3%	(L +9.00%)	4/21/2025	9,950	9,804	9,876	5.1
					14,925	14,730	14,825	7.7
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing							
Senior Secured Loan		8.55%	(L +7.25%)	8/27/2018	3,996	3,986	3,650	1.9

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Inhance Technologies Holdings LLC Senior Secured Loan	Other Basic Inorganic Chemical Manufacturing	5.80%	(L +4.50%)	6/30/2019	\$ 1,971	\$ 1,959	\$1,965	1.0 %
Intrafusion Holding Corp. (4) Senior Secured Loan (8)	Other Outpatient Care Centers	11.00%	(L +6.75%)	9/25/2020	14,250	14,213	14,250	7.4
Jobson Healthcare Information, LLC (4) Senior Secured Loan (10)	Other Professional, Scientific, and Technical Services	10.13% cash / 4.80% PIK	(L +12.93%)	7/21/2019	15,055	14,781	12,888	6.7
Warrants (1,056,428 member units) (9)				7/21/2019 (11)		454	—	—
					15,055	15,235	12,888	6.7
LRI Holding, LLC (4) Senior Secured Loan	Electrical Contractors and Other Wiring Installation Contractors	10.55%	(L +9.25%)	6/30/2022	18,500	18,338	18,338	9.6
Preferred Equity (238,095 units)						300	300	0.2
					18,500	18,638	18,638	9.8
Maverick Healthcare Equity, LLC (4) Preferred Equity (1,250,000 units) (9)	Home Health Equipment Rental					900	358	0.2
Common Equity (1,250,000 units) (9)						—	—	—
						900	358	0.2
MN Acquisition, LLC (4)	Software Publishers							

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Senior Secured Loan		11.65%	(L + 10.50%)	3/17/2022	4,108	4,038	4,060	2.1
My Alarm Center, LLC (4)	Security Systems Services (except Locksmiths)							
Senior Secured Loan (6)		12.15%	(L +11.00%)	7/9/2019	6,896	6,701	1,745	0.9
Preferred Equity (100 Class A units) (9)						203	—	—
Preferred Equity (25 Class A-1 units) (9)						44	—	—
					6,896	6,948	1,745	0.9
MYI Acquiror Limited (5)	Insurance Agencies and Brokerages							
Senior Secured Loan		5.75%	(L +4.50%)	5/28/2019	4,686	4,681	4,686	2.4
NVA Holdings, Inc.	Veterinary Services							
Senior Secured Loan		8.30%	(L +7.00%)	8/14/2022	743	743	750	0.4

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
O2 Holdings, LLC (4)	Fitness and Recreational Sports Centers	12.22%	(L +11.00%)	9/2/2021	\$ 10,000	\$ 9,925	\$9,874	5.1 %
Planet Fitness Midwest LLC (4)	Fitness and Recreational Sports Centers	13.00%	N/A	12/16/2021	5,000	4,959	5,029	2.6
PM Acquisition LLC	All Other General Merchandise Stores	11.50%	N/A	10/31/2021	6,254	6,200	6,180	3.2
Senior Secured Loan						499	348	0.2
Common equity (499 units) (9)					6,254	6,699	6,528	3.4
Quantum Spatial, Inc.	Other Information Services	0.0675	(L +5.50%)	8/27/2017	2,419	2,417	2,412	1.3
Senior Secured Loan								
Ranpak Corp.	Packaging Machinery Manufacturing	8.42%	(L +7.25%)	10/3/2022	1,680	1,666	1,661	0.9
Senior Secured Loan								
Resource Label Group, LLC	Commercial Printing (except Screen and Books)	5.80%	(L +4.50%)	5/26/2023	1,929	1,910	1,910	1.0
Senior Secured Loan								
Senior Secured Loan		8.80%	(L +7.50%)	11/26/2023	4,821	4,749	4,751	2.5
					6,750	6,659	6,661	3.5
Security Alarm Financing Enterprises, L.P. (4)	Security Systems Services (except Locksmiths)		(L +13.00%)	6/19/2020	12,505	12,404	12,230	6.4
Subordinated Loan								

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14.00%
cash /
0.3% PIK

Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services						
Senior Secured Loan		12.73%	(L +11.50%) 7/24/2019	4,202	4,150	4,284	2.2
Preferred Equity (5,000 units) (9) (12)					506	506	—
				4,202	4,656	4,790	2.2
smarTours, LLC (4)	Tour Operators						
Preferred Equity (500,000 units) (9)					439	1,080	0.6

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Southern Technical Institute, LLC (4)	Colleges, Universities, and Professional Schools	10.30%	(L +12.00%)	12/2/2020	\$ 3,494	\$ 3,419	\$ 3,013	1.6 %
Subordinated Loan		cash / 3.0% PIK						
Preferred Equity (1,764,720 units), 15.75% PIK (9)						2,094	1,455	0.8
Warrants (2,174,905 units) (9)				3/30/2026 (11)		46	—	—
					3,494	5,559	4,468	2.4
Stancor, L.P. (4)	Pump and Pumping Equipment Manufacturing							
Senior Secured Loan		10.22%	(L +9.00%)	8/19/2019	8,787	8,754	8,706	4.5
Preferred Equity (1,250,000 units), 8% PIK (7) (9)						1,501	875	0.5
					8,787	10,255	9,581	5.0
TravelCLICK, Inc.	Computer Systems Design and Related Services							
Senior Secured Loan		8.98%	(L +7.75%)	11/8/2021	7,334	7,298	7,334	3.8
Truck Hero, Inc.	Truck Trailer Manufacturing							
Senior Secured Loan		9.41%	(L +8.25%)	4/21/2025	4,941	4,868	4,901	2.6
Senior Secured Loan		5.16%	(L +4.00%)	4/21/2024	1,384	1,370	1,376	0.7
					6,325	6,238	6,277	3.3
United Biologics Holdings, LLC (4)	Medical Laboratories							
Senior Secured Loan (10)			N/A	4/30/2018	4,230	4,182	4,220	2.2

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		12.0% cash / 2.0% PIK						
Subordinated Loan (9)		8.0% PIK	N/A	4/30/2019	7	7	6	—
Preferred Equity (151,787 units) (9)						9	20	—
Warrants (29,374 units) (9)				03/05/2022 (11)		82	58	—
					4,237	4,280	4,304	2.2
VanDeMark Chemical Inc.	Other Basic Inorganic Chemical Manufacturing							
Senior Secured Loan		6.55% (L +5.25%)		11/30/2017	2,338	2,331	2,331	1.2
Total Non-control/Non-affiliate Investments					209,231	213,626	200,020	104.0
Affiliate Investments								
All Metals Holding, LLC (4)	Metal Service Centers and Other Metal Merchant Wholesalers							
Senior Secured Loan		12.0% cash / 1.0% PIK	N/A	12/28/2021	12,932	12,272	12,932	6.7
Common Equity (637,954 units) (9)						565	1,458	0.8
					12,932	12,837	14,390	7.5

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Contract DataScan Holdings, Inc. (4) Subordinated Loan	Office Machinery and Equipment Rental and Leasing	12.00%	N/A	2/5/2021	\$ 8,000	\$ 7,983	\$ 8,000	4.2 %
						4,069	5,427	2.8
						104	—	—
					8,000	12,156	13,427	7.0
Master Cutlery, LLC (4) Subordinated Loan	Sporting and Recreational Goods and Supplies Merchant Wholesalers	13.00%	N/A	4/17/2020	4,705	4,689	3,993	2.1
						3,483	—	—
						—	—	—
					4,705	8,172	3,993	2.1
NeoSystems Corp. (4) Subordinated Loan	Other Accounting Services	10.50% cash / 2.25% PIK	N/A	8/13/2019	2,125	2,117	2,064	1.1
						1,323	1,332	0.7
					2,125	3,440	3,396	1.8
Pfanstiehl Holdings, Inc. (4) Subordinated Loan	Pharmaceutical Preparation Manufacturing	10.50%	N/A	9/29/2021	3,788	3,827	3,788	2.0

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Common Equity (400 shares)				217	4,463	2.3
				3,788	4,044	4.3
Strategic Pharma Solutions, Inc. (4)	Other Professional, Scientific, and Technical Services					
Senior Secured Loan		11.43% (L +10.00%)	12/18/2020	8,411	8,353	8,579 4.5
Preferred Equity (1,191 units), 6% PIK (9)					1,972	5,700 3.0
				8,411	10,325	14,279 7.5
TRS Services, LLC (4)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance					
Senior Secured Loan		9.97% cash / (L +9.25%) 0.5% PIK	12/10/2019	9,796	9,630	9,796 5.1
Preferred Equity (329,266 Class AA units), 15% PIK (9)					372	381 0.2
Preferred Equity (3,000,000 Class A units), 11% PIK (9)					3,374	3,069 1.6
Common Equity (3,000,000 units) (9)					572	— —
				9,796	13,948	13,246 6.9
Total Affiliate Investments				49,757	64,922	70,982 37.1

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type Control Investments	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Malabar International (4)	Other Aircraft Parts and Auxiliary Equipment Manufacturing	11.25% cash / 2.0% PIK	N/A	11/13/2021	\$7,693	\$7,714	\$7,829	4.1 %
Subordinated Loan								
Preferred Stock (1,644 shares), 6% cash						4,283	7,476	3.9
					7,693	11,997	15,305	8.0
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing	12.73% cash / 1.5% PIK	(L +13.00%)	11/25/2020	7,131	7,082	7,083	3.7
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.)								
Common Equity (554 shares)						3,069	3,518	1.8
Total Control Investment					7,131	10,151	10,601	5.5
					14,824	22,148	25,906	13.5
Total Investments					\$273,812	\$300,696	\$296,908	154.6 %

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company.

The majority of investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Approximately 16% of the Company's LIBOR referenced investments are subject to an (2) interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at June 30, 2017. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) The negative fair value is the result of the unfunded commitment being below par.

(4) Investments held by OFS SBIC I, LP. All other investments pledged as collateral under the PWB Credit Facility.

(5)

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Non-qualifying assets under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of June 30, 2017, 97.18% of the Company's assets were qualifying assets.

(6) Investment was on non-accrual status as of June 30, 2017, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 2, Non-accrual loans for further details.

(7) Recognition of PIK and/or dividend income discontinued as of June 30, 2017. See Note 2, Dividend Income for further details.

(8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 11% at June 30, 2017, includes additional interest of 1.75% per annum as specified under the contractual arrangement among the Company and the co lenders.

(9) Non-income producing.

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest (10)rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of June 30, 2017:

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00 %
Jobson Healthcare Information, LLC	Senior Secured Loan	1.5% or 4.80%	10.13% or 13.43%	4.80 %
MTE Holding Corp.	Subordinated Loan	0% or 1.5%	12.73% or 14.23%	1.50 %
United Biologics Holdings, LLC	Senior Secured Loan	0% or 2.00%	14.00% or 12.00%	2.00 %

(11) Represents expiration date of the warrants.

(12) Investment held by a wholly-owned subsidiary subject to income tax. See Note 2, Income taxes for further details.

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2016

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Accurate Group Holdings, Inc. (4) Subordinated Loan	Offices of Real Estate Appraisers	13.00%	N/A	8/23/2018	\$ 10,000	\$ 10,032	\$ 10,000	7.0 %
Armor Holdings II LLC	Other Professional, Scientific, and Technical Services	10.25%	(L +9.00%)	12/26/2020	3,500	3,469	3,496	2.4
AssuredPartners, Inc	Insurance Agencies and Brokerages	10.00%	(L +9.00%)	10/20/2023	5,000	4,854	5,013	3.5
Avison Young Canada, Inc.	Offices of Real Estate Agents and Brokers	9.50%	N/A	12/15/2021	4,000	3,923	3,923	2.7
Senior Secured Loan (4) (5)								
BCC Software, LLC (4)	Custom Computer Programming Services	9.00%	(L +8.00%)	6/20/2019	5,143	5,105	5,143	3.6
Senior Secured Loan (Revolver) (10) (3)		N/A	(L +8.00%)	6/20/2019	—	(8)	—	—
					5,143	5,097	5,143	3.6
Community Intervention Services, Inc. (4)	Outpatient Mental Health and Substance Abuse Centers	7.0% cash / 6.0% PIK	N/A	1/16/2021	8,030	7,639	5,393	3.8
Subordinated Loan (6) (11)								
Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages	10.25%	(L +9.00%)	5/8/2019	4,000	3,976	3,973	2.8
Senior Secured Loan								

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C7 Data Centers, Inc. (4) Senior Secured Loan (9)	Other Computer Related Services	12.47%	(L +8.50%)	6/22/2020	14,850	14,738	14,883	10.4
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	8.50%	(L +7.25%)	8/27/2018	4,104	4,090	3,555	2.5
Inhance Technologies Holdings LLC	Other Basic Inorganic Chemical Manufacturing	5.50%	(L +4.50%)	2/7/2018	2,032	2,027	2,017	1.4

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Intrafusion Holding Corp. (4) Senior Secured Loan (8)	Other Outpatient Care Centers	11.33%	(L +6.75%)	9/25/2020	\$ 14,250	\$ 14,207	\$ 14,393	10.0 %
Jobson Healthcare Information, LLC (4) Senior Secured Loan (11)	Other Professional, Scientific, and Technical Services	10.13% cash / 4.295% PIK	(L +12.425%)	7/21/2019	14,762	14,423	12,346	8.6
Warrants (1,056,428 member units) (10)				7/21/2019 (12)		454	—	—
					14,762	14,877	12,346	8.6
Maverick Healthcare Equity, LLC (4) Preferred Equity (1,250,000 units) (10) Common Equity (1,250,000 units) (10)	Home Health Equipment Rental					900	1,037	0.7
						—	—	—
						900	1,037	0.7
MN Acquisition, LLC (4) Senior Secured Loan	Software Publishers	10.50%	(L + 9.50%)	8/24/2021	4,989	4,896	4,949	3.4
My Alarm Center, LLC (4)	Security Systems Services (except Locksmiths)							

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Senior Secured Loan		12.00%	(L +11.00%)	7/9/2019	6,250	6,034	6,260	4.4
Preferred Equity (100 Class A units) (10)						203	205	0.1
Preferred Equity (25 Class A-1 units) (10)						44	36	—
					6,250	6,281	6,501	4.5
MYI Acquiror Limited (5)	Insurance Agencies and Brokerages							
Senior Secured Loan		5.75%	(L +4.50%)	5/28/2019	4,686	4,680	4,613	3.2
NHR Holdings, LLC	Other Telecommunications							
Senior Secured Loan		5.50%	(L +4.25%)	11/30/2018	2,666	2,652	2,630	1.8
NVA Holdings, Inc.	Veterinary Services							
Senior Secured Loan		8.00%	(L +7.00%)	8/14/2022	650	650	651	0.5
O2 Holdings, LLC (4)	Fitness and Recreational Sports Centers							
Senior Secured Loan		11.77%	(L +11.00%)	9/2/2021	9,500	9,417	9,430	6.6

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
PM Acquisition LLC	All Other General Merchandise Stores							
Senior Secured Loan		11.50%	N/A	10/31/2021	\$ 6,402	\$ 6,340	\$ 6,340	4.4 %
Common equity (499 units) (10)						499	499	0.3
					6,402	6,839	6,839	4.7
Planet Fitness Midwest LLC (4)	Fitness and Recreational Sports Centers							
Subordinated Loan		13.00%	N/A	12/16/2021	5,000	4,955	4,980	3.5
Quantum Spatial, Inc. (f/k/a Aero-Metric, Inc.)	Other Information Services							
Senior Secured Loan		6.75% cash / 1.0% PIK	(L +6.50%)	8/27/2017	2,440	2,427	2,340	1.6
Ranpak Corp.	Packaging Machinery Manufacturing							
Senior Secured Loan		8.25%	(L +7.25%)	10/3/2022	2,000	1,996	1,885	1.3
Security Alarm Financing Enterprises, L.P. (4)	Security Systems Services (except Locksmiths)							
Subordinated Loan		14.00%	(L +13.00%)	6/19/2020	12,500	12,382	12,382	8.6
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services							
Senior Secured Loan		12.40%	(L +11.50%)	7/24/2019	4,209	4,145	4,171	2.9
smarTours, LLC (4) Preferred Equity (500,000 units) (10)	Tour Operators					439	1,019	0.7

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Southern Technical Institute, LLC (4)	Colleges, Universities, and Professional Schools	9.0% cash / 4.0% PIK	(L +12.00%)	12/2/2020	3,398	3,330	3,158	2.2
Preferred Equity (1,764,720 units), 15.75% PIK (10)						1,938	1,984	1.4
Warrants (2,174,905 units) (10)				3/30/2026 (12)		46	—	—
					3,398	5,314	5,142	3.6

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Stancor, L.P. (4)	Pump and Pumping Equipment Manufacturing	9.75%	(L +9.00%)	8/19/2019	\$ 9,450	\$ 9,407	\$ 9,181	6.4 %
Senior Secured Loan						1,501	835	0.6
Preferred Equity (1,250,000 units), 8% PIK (10)					9,450	10,908	10,016	7.0
TravelCLICK, Inc.	Computer Systems Design and Related Services	8.75%	(L +7.75%)	11/8/2021	4,000	3,879	3,946	2.7
Senior Secured Loan								
United Biologics Holdings, LLC (4)	Medical Laboratories	12.0% cash / 2.0% PIK	N/A	4/30/2018	4,181	4,106	4,034	2.8
Senior Secured Loan (11)								
Subordinated Loan (10)		8.0% PIK	N/A	4/30/2019	7	7	6	—
Preferred Equity (151,787 units) (10)						9	20	—
Warrants (29,374 units) (10)				3/5/2022 (12)		82	114	0.1
					4,188	4,204	4,174	2.9
VanDeMark Chemical Inc.	Other Basic Inorganic Chemical Manufacturing	6.50%	(L +5.25%)	11/30/2017	2,406	2,386	2,379	1.7
Senior Secured Loan								
Total Non-control/Non-affiliate Investments					174,405	178,279	173,219	120.6
Affiliate Investments								

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All Metals Holding, LLC (4)	Metal Service Centers and Other Metal Merchant Wholesalers	12.0% cash / 1.0% PIK	N/A	12/28/2021	12,867	12,135	12,865	8.9
Senior Secured Loan								
Common Equity (637,954 units) (10)					12,867	565	1,277	0.9
					12,700		14,142	9.8
Contract Datascan Holdings, Inc. (4)	Office Machinery and Equipment Rental and Leasing							
Subordinated Loan		12.00%	N/A	2/5/2021	8,000	7,980	7,902	5.5
Preferred Equity (3,061 shares), 10% PIK (10)						3,804	5,421	3.8
Common Equity (11,273 shares) (10)						104	187	0.1
					8,000	11,888	13,510	9.4

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Intelli-Mark Technologies, Inc.(4) Senior Secured Loan (11) Common Equity (2,553,089 shares) (10)	Other Travel Arrangement and Reservation Services	13.00%	N/A	11/23/2020	\$ 8,750	\$ 8,682	\$8,841	6.2 %
						1,500	1,998	1.5
					8,750	10,182	10,839	7.7
Master Cutlery, LLC (4) Subordinated Loan Preferred Equity (3,723 units), 5% cash, 3% PIK (7) (10) Common Equity (15,564 units) (10)	Sporting and Recreational Goods and Supplies Merchant Wholesalers	13.00%	N/A	4/17/2020	4,741	4,722	4,440	3.1
						3,483	954	0.7
					4,741	8,205	5,394	3.8
NeoSystems Corp. (4) Subordinated Loan Preferred Equity (521,962 convertible shares), 10% PIK (10)	Other Accounting Services	10.50% cash / 2.75% PIK	N/A	8/13/2019	4,090	4,070	3,656	2.5
						1,258	1,255	0.9
					4,090	5,328	4,911	3.4
Pfanstiehl Holdings, Inc. (4) Subordinated Loan (11) Common Equity (400 shares)	Pharmaceutical Preparation Manufacturing	10.50%	N/A	9/29/2021	3,788	3,832	3,810	2.6
						217	6,083	4.2
					3,788	4,049	9,893	6.8

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Strategic Pharma Solutions, Inc. (4)	Other Professional, Scientific, and Technical Services								
Senior Secured Loan		11.32%	(L +10.00%)	12/18/2020	8,411	8,344	8,383	5.8	
Preferred Equity (1,191 units), 6% PIK (10)						1,915	3,026	2.1	
					8,411	10,259	11,409	7.9	
TRS Services, LLC (4)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance								
Senior Secured Loan		9.75% cash / 1.5% PIK	(L +10.25%)	12/10/2019	9,807	9,607	9,549	6.5	
Preferred Equity (329,266 Class AA units), 15% PIK (10)						346	354	0.2	
Preferred Equity (3,000,000 Class A units), 11% PIK (10)						3,170	1,707	1.2	
Common Equity (3,000,000 units) (10)						572	—	—	
					9,807	13,695	11,610	7.9	
Total Affiliate Investments					60,454	76,306	81,708	56.7	

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Control Investments								
Malabar International (4)	Other Aircraft Parts and Auxiliary Equipment Manufacturing	11.25% cash / 2.0% PIK	N/A	11/13/2021	\$7,617	\$7,642	\$7,683	5.3 %
Preferred Stock (1,644 shares), 6% cash						4,283	5,868	4.1
					7,617	11,925	13,551	9.4
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing	12.50%	(L +11.50%)	11/25/2020	9,804	9,728	9,766	6.8
Senior Secured Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.) Common Equity (554 shares)						3,069	3,383	2.4
					9,804	12,797	13,149	9.2
Total Control Investment					17,421	24,722	26,700	18.6
Total Investments					\$252,280	\$279,307	\$281,627	195.9%

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company.

The majority of investments that bear interest at a variable rate are indexed to LIBOR (L) or Prime (P), and reset monthly, quarterly, or semi-annually. Substantially all of the Company's LIBOR referenced investments are subject (2) to an interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2016. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) The negative fair value is the result of the unfunded commitment being below par.

(4) Investments held by OFS SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.

(5)

Non-qualifying assets under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2016, 98.4% of the Company's assets were qualifying assets.

(6) Investment was on non-accrual status as of December 31, 2016, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 2, Non-accrual loans for further details.

(7) Recognition of PIK dividend income discontinued as of December 31, 2016. See Note 2, Dividend Income for further details.

(8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 11.33% at December 31, 2016, includes additional interest of 2.08% per annum as specified under the contractual arrangement among the Company and the co lenders.

(9) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 12.47% at December 31, 2016, includes additional interest of 2.97% per annum as specified under the contractual arrangement among the Company and the co lenders.

(10) Non-income producing.

(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of December 31, 2016:

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00 %
Intelli-Mark Technologies, Inc.	Senior Secured Loan	0% or 2.00%	13.00% or 11.50%	2.00 %
Jobson Healthcare Information, LLC	Senior Secured Loan	1.50% and 4.295%	10.13% and 12.925%	4.295 %
Pfanstiehl Holdings, Inc.	Subordinated Loan	0% or 2.00%	10.50% or % 8.50%	2.00 %
United Biologics Holdings, LLC	Senior Secured Loan	0% or 2.00%	14.00% or 12.00%	2.00 %

(12) Represents expiration date of the warrants.

See Notes to Financial Statements.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

Note 1. Organization

OFS Capital Corporation, a Delaware corporation, is an externally managed, closed-end, non-diversified management investment company. The Company has elected to be regulated as a BDC under the 1940 Act. In addition, for income tax purposes, the Company has elected to be treated as a RIC under the Code.

The Company's objective is to provide stockholders with current income and capital appreciation through its strategic investment focus primarily on debt investments and, to a lesser extent, equity investments primarily in middle-market companies principally in the United States. OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company.

In addition, OFS Advisor also serves as the investment adviser for HPCI, a Maryland corporation and a BDC. HPCI's investment objective is similar to that of the Company.

The Company may make investments directly or through SBIC I LP, its investment company subsidiary licensed under the SBA SBIC Program. The SBIC Program is designed to stimulate the flow of capital into eligible businesses. SBIC I LP is subject to SBA regulatory requirements, including limitations on the businesses and industries in which it can invest, requirements to invest at least 25% of its regulatory capital in eligible smaller businesses, as defined under the SBIC Act, limitations on the financing terms of investments, capitalization thresholds that may limit distributions to the Company, and is subject to periodic audits and examinations of its financial statements.

In April 2017, the Company issued 3,625,000 shares of its common stock in a follow-on public offering at an offering price of \$14.57 per share (the "Offering"), including shares purchased by the underwriters pursuant to their exercise of the over-allotment option. OFS Advisor paid all of the underwriting discounts and commissions and an additional supplemental payment of \$0.25 per share, representing the difference between the public offering price of \$14.57 per share and the net offering proceeds of \$14.82 per share, which also represented the Company's NAV per share at the time of the Offering. All payments made by OFS Advisor in connection with the Offering are not subject to reimbursement by the Company. The Company received net proceeds from this Offering of \$53,723.

Note 2. Basis of Presentation and Significant Accounting Policies

Basis of presentation: The Company prepares its consolidated financial statements in accordance with GAAP, including ASC Topic 946, Financial Services—Investment Companies, the 1940 Act, Articles 6 or 10 of Regulation S-X, and the requirements for reporting on Form 10-Q. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal and recurring accruals and adjustments, necessary for fair presentation have been made. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation. These consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

Principles of consolidation: The Company consolidates majority-owned, investment company subsidiaries. The Company does not own any controlled operating company whose business consists of providing services to the Company, which would also require consolidation. All intercompany balances and transactions are eliminated upon consolidation.

Fair value of financial instruments: The Company applies fair value to substantially all of its financial instruments. ASC Topic 820 defines fair value, establishes a framework to measure fair value, and requires disclosures regarding fair value measurements. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined through the use of models and other valuation techniques, valuation inputs, and assumptions market participants would use to value the investment. Highest priority is given to prices for identical assets quoted in active markets (Level 1) and the lowest

priority is given to unobservable valuation inputs (Level 3). The availability of observable inputs can vary significantly and is affected by many factors, including the type of product, whether the product is new to the market, whether the product is traded on an active exchange or in the secondary market, and the current market conditions. To the extent that the valuation is based on less observable or unobservable inputs, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3 (i.e., those instruments valued using non-observable inputs), which comprise the entirety of the Company's investments.

Changes to the valuation policy are reviewed by management and the Company's Board. As the Company's investments change, markets change, new products develop, and valuation inputs become more or less observable, the Company will continue to refine its valuation methodologies.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

See Note 5 for more detailed disclosures of the Company's fair value measurements of its financial instruments.

Investment classification: The Company classifies its investments in accordance with the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in those companies in which the Company owns more than 25% of the voting securities or has rights to maintain greater than 50% of board representation, "Affiliate Investments" are defined as investments in those companies in which the Company owns between 5% and 25% of the voting securities, and "Non-Control/Non-Affiliate Investments" are those that neither qualify as Control Investments nor Affiliate Investments.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Reportable segments: The Company has a single reportable segment and single operating segment structure.

Cash and cash equivalents: Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities of three months or less. The Company's cash and cash equivalents are maintained with a member bank of the FDIC and at times, such balances may be in excess of the FDIC insurance limits. Included in cash and cash equivalents was \$46,459 and \$17,659 held in a US Bank Money Market Deposit Account as of June 30, 2017, and December 31, 2016, respectively.

Revenue recognition:

Interest Income: Interest income is recorded on an accrual basis and reported as interest receivable until collected. Interest income is accrued daily based on the outstanding principal amount and the contractual terms of the debt investment. Certain of the Company's investments contain a payment-in-kind interest income provision ("PIK interest"). The PIK interest, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest income, as applicable, on the consolidated statements of operations. The Company discontinues accrual of interest income, including PIK interest, when there is reasonable doubt that the interest income will be collected.

Loan origination fees, original issue discount ("OID"), market discount or premium, and loan amendment fees (collectively, "Net Loan Fees") are recorded as an adjustment to the amortized cost of the investment, and accreted or amortized as an adjustment to interest income over the life of the respective debt investment using a method that approximates the effective interest method. When the Company receives a loan principal payment, the unamortized Net Loan Fees related to the paid principal is accelerated and recognized in interest income.

Further, the Company may acquire or receive equity, warrants or other equity-related securities ("Equity") in connection with the Company's acquisition of, or subsequent amendment to, debt investments. The Company determines the cost basis of Equity based on their fair value, and the fair value of debt investments and other securities or consideration received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Equity is treated as OID, and accreted into interest income as described above.

Dividend Income: Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity securities is accrued as earned. Dividends on preferred equity securities may be payable in cash or in additional preferred securities, and are generally not payable unless declared or upon liquidation. Declared dividends payable in cash are reported as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared ("PIK dividends") are recorded as an adjustment to the cost basis of the investment. The Company discontinues accrual of PIK dividends on preferred equity securities when there is reasonable doubt that the dividend income will be collected. At June 30, 2017, the Company had two preferred equity securities (Master Cutlery, LLC and Stancor, L.P.), with an aggregate amortized cost and fair value of \$4,984 and \$875, respectively, for which the Company discontinued the PIK dividend accrual.

In addition, at June 30, 2017, the Company discontinued recognition of the cash preferred dividend from its investment in Master Cutlery, LLC. At December 31, 2016, the Company had one preferred equity security (Master Cutlery, LLC) with an amortized cost and fair value of \$3,483, and \$954, respectively, for which the Company discontinued the PIK dividend accrual.

Fee Income: The Company generates revenue in the form of management, valuation, and other contractual fees, that is recognized as the related services are rendered. In the general course of its business, the Company receives certain fees from portfolio companies which are non-recurring in nature. Such non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and fees for capital structuring services from certain portfolio companies, which are recognized as earned upon closing of the investment.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

Net Realized and Unrealized Gain or Loss on Investments: Investment transactions are reported on a trade-date basis. Unsettled trades as of the balance sheet date are included in payable for investments purchased on the consolidated balance sheets. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the amortized cost basis of the investment. Investments are valued at fair value as determined in good faith by Company management under the supervision and review of the Board. After recording all appropriate interest, dividend, and other income, some of which is recorded as an adjustment to the cost basis of the investment as described above, the Company reports changes in the fair value of investments as net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

Non-accrual loans: When there is reasonable doubt that principal, cash interest, PIK interest, or dividends will be collected, loans or preferred equity investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, Net Loan Fee amortization, or dividend income, as applicable. When an investment is placed on non-accrual status, all interest and dividends previously accrued but not collected, other than PIK interest or dividends that has been contractually added to the adjusted cost basis of the investment prior to the designation date, is reversed against current period interest and dividend income. Interest and dividend payments subsequently received on non-accrual investments may be recognized as income or applied to principal depending upon management's judgment. Interest or dividend accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest or dividends and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal, interest or dividends. At June 30, 2017, the Company had two loans (Community Intervention Services, Inc. and My Alarm Center, LLC) on non-accrual status with respect to all interest and Net Loan Fee amortization, with an aggregate amortized cost and fair value of \$14,340 and \$5,030, respectively. In July 2017, the My Alarm Center, LLC loan was restructured and converted into preferred equity securities. At December 31, 2016, the Company had one loan (Community Intervention Services, Inc.) on non-accrual status with respect to PIK interest and Net Loan Fees with an amortized cost and fair value of \$7,639 and \$5,393, respectively.

Income taxes: The Company has elected to be treated, and intends to qualify annually, as a RIC under Subchapter M of the Code. To qualify as a RIC, the Company must, among other things, meet certain source of income and asset diversification requirements, and timely distribute at least 90% of its ICTI to its stockholders. The Company has made, and intends to continue to make, the requisite distributions to its stockholders, which generally relieves the Company from U.S. federal income taxes.

Depending on the level of ICTI earned in a tax year, the Company may choose to retain ICTI in an amount less than that which would trigger federal income tax liability under Subchapter M of the Code. However, the Company would be liable for a 4% excise tax on such income. Excise tax liability is recognized when the Company determines its estimated current year annual ICTI exceeds estimated current year distributions.

The Company may utilize wholly-owned holding companies taxed under Subchapter C of the Code when making equity investments in portfolio companies taxed as pass-through entities to meet its source-of-income requirements as a RIC. These "tax blocker" entities are consolidated in the Company's GAAP financial statements and may result in federal income tax expense with respect to income derived from those investments. Such income, net of applicable federal income tax, is not included in the Company's tax-basis net investment income until distributed by the holding company, which may result in temporary differences and character differences between the Company's GAAP and tax-basis net investment income and realized gains and losses. Federal income tax expense from such holding-company subsidiaries is included in general and administrative expenses in the consolidated statements of operations.

The Company evaluates tax positions taken in the course of preparing its tax returns to determine whether they are "more-likely-than-not" to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the

more-likely-than-not threshold could result in greater and undistributed ICTI, income and excise tax expense, and, if involving multiple years, a re-assessment of the Company's RIC status. GAAP requires recognition of accrued interest and penalties related to uncertain tax benefits as income tax expense. There were no uncertain income tax positions at June 30, 2017 or December 31, 2016. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

Distributions: Distributions to common stockholders are recorded on the declaration date. The timing of distributions as well as the amount to be paid out as a distribution is determined by the Board each quarter. Distributions from net investment income and net realized gains are determined in accordance with the Code. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment. Distributions paid in excess of taxable net investment income and net realized gains are considered returns of capital to stockholders.

The Company has adopted a DRIP that provides for reinvestment of any distributions the Company declares in cash on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board authorizes and the Company declares a

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(Dollar amounts in thousands, except per share data)

cash distribution, then stockholders who have not “opted out” of the DRIP will have their cash distribution automatically reinvested in additional shares of the Company’s common stock, rather than receiving the cash distribution.

The Company may use newly issued shares under the guidelines of the DRIP, or the Company may purchase shares in the open market in connection with its obligations under the plan.

Deferred debt issuance costs: Deferred debt issuance costs represent fees and other direct incremental costs incurred in connection with the Company’s borrowings. Deferred debt issuance costs are presented as a direct reduction of the related debt liability on the consolidated balance sheets except for deferred debt issuance costs associated with the Company’s line of credit arrangements, which are included in prepaid expenses and other assets on the consolidated balance sheets. Deferred debt issuance costs are amortized to interest expense over the term of the related debt.

Goodwill: On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded goodwill of \$1,077, which is included in prepaid expenses and other assets on the consolidated balance sheets. Goodwill is not subject to amortization. Goodwill is evaluated for impairment annually or more frequently if events occur or circumstances change that indicate goodwill may be impaired. There have been no goodwill impairments since the date of the SBIC Acquisitions.

Intangible asset: On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded an intangible asset of \$2,500 attributable to the SBIC license. The Company amortizes this intangible asset on a straight-line basis over its estimated useful life of 13 years. The Company expects to incur annual amortization expense of \$195 in each of the years ending December 31, 2025 and \$145 in 2026.

The Company tests its intangible asset for impairment if events or circumstances suggest that the asset carrying value may not be fully recoverable. The intangible asset, net of accumulated amortization of \$698 and \$600 at June 30, 2017 and December 31, 2016, respectively, is included in prepaid expenses and other assets.

Interest expense: Interest expense is recognized on an accrual basis.

Concentration of credit risk: Aside from its debt instruments, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. To mitigate this risk, the Company places cash deposits only with high credit quality institutions. Management believes the risk of loss is minimal.

New Accounting Standards: The following table discusses ASUs issued by the FASB adopted or yet to be adopted by the Company during 2017:

Standard	Description	Period of Adoption	Effect of Adoption on the financial statements
Standards that were adopted			
ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323); Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)	Incorporates into the FASB ASC Topic 250, SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on the financial statements of recently issued accounting standards when adopted, and specifically for ASU 2014-09, ASU 2016-02, and ASU 2016-03. If a registrant does not know or cannot reasonably estimate the impact of adoption of the above standards, the SEC staff expects the registrant to make a statement to that effect. Consistent with SAB Topic 11.M, the SEC staff also expects the registrant to provide qualitative disclosures to help users assess the significance the adoption will have on the	First Quarter of 2017	No material impact to the Company's consolidated financial statements

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financial statements. In addition, conforms the SEC Staff comments included in ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for investments in Qualified Affordable Housing Projects. The primary effect of the amendment was to change the reference "effective yield method" to "proportional amortization method"

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(Dollar amounts in thousands, except per share data)

Standard	Description	Effect of Adoption on the the financial statements
Standards that are not yet adopted		
ASU 2014-09, Revenue from Contracts with Customers	Supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of the standard is to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard defines a five step process to achieve this core principle. The standard must be adopting using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures)	In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09, such that the guidance is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company has completed its initial evaluation phase and has determined the impact of its pending adoption of ASU 2014-09 is not expected to have a material effect on the Company's consolidated financial statements.
ASU 2016-01, Financial Instruments – Overall	Modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value, and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820 - Fair Value Measurement, and as such these investments may be measured at cost	Annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company is required to record its investments at fair value with changes in fair value recognized in net income in accordance with ASC Topic 946, Financial Services—Investment Companies. Therefore, the adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements
ASU 2016-15, Statement of Cash Flows	Addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows	Annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted. The Company is currently evaluating the impact of this ASU will have on the Company's consolidated financial position and disclosures.
ASU 2016-19, Technical Corrections and Improvements	Makes minor corrections and clarifications that affect a wide variety of topics in the Accounting Standards Codification, including an amendment to ASC Topic 820, Fair Value Measurement, which	Annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early application is permitted for any

clarifies the difference between a valuation approach and a valuation technique when applying the guidance of that Topic. The amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. The transition guidance for the ASC Topic 820 amendment must be applied prospectively because it could potentially involve the use of hindsight that includes fair value measurements

fiscal year or interim period for which the entity's financial statements have not yet been issued. The Company is currently evaluating the impact this ASU will have on the Company's consolidated financial position or disclosures

ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers

Amends certain narrow aspects of ASU 2014-09, including loan guarantee fees, impairment testing of contract costs, provisions for losses on construction-type and production type contracts, advertising costs, scope exception clarifications, and various disclosures

The effective date and transition requirements are the same as the effective date and transition requirements for ASU 2014-09 and is not expected to have a material effect on the Company's consolidated financial statements.

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(Dollar amounts in thousands, except per share data)

Standard	Description	Effect of Adoption on the the financial statements
Standards that are not yet adopted		
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	Removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill	Annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early application is permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's consolidated financial statements.
ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 620-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	Defines "insubstance nonfinancial asset", unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing sales of real estate, removes exceptions to the financial asset derecognition model, and clarifies the accounting for contributions of nonfinancial assets to joint ventures	The effective date and transition requirements are the same as the effective date and transition requirements for ASU 2014-09 and is not expected to have a material effect on the Company's consolidated financial statements.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	Shortens the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Securities held at a discount are to continue to be amortized to maturity	Annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The adoption of ASU 2017-08 is not expected to have a material effect on the Company's consolidated financial statements.

Note 3. Related Party Transactions

Investment Advisory and Management Agreement: OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company pursuant to an Investment Advisory Agreement. The Investment Advisory Agreement was most recently re-approved on April 7, 2017. Under the terms of the Investment Advisory Agreement, which are in accordance with the 1940 Act and subject to the overall supervision of the Company's Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of OFSAM and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

OFS Advisor's services under the Investment Advisory Agreement are not exclusive to us and OFS Advisor is free to furnish similar services to other entities, including other BDCs affiliated with OFS Advisor, so long as its services to us are not impaired. OFS Advisor also serves as the investment adviser to CLO funds and other assets, including HPCI, a non-traded BDC with an investment strategy similar to the Company.

OFS Advisor receives fees for providing services, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% and based on the average value of the Company's total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. OFS Advisor has elected to exclude the value of the intangible asset and goodwill resulting from the SBIC Acquisitions from the base management fee calculation.

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The base management fee is payable quarterly in arrears and was \$1,224 and \$2,416 for the three and six months ended June 30, 2017, respectively and \$1,089 and \$2,204, for the three and six months ended June 30, 2016.

The incentive fee has two parts. The first part ("Part One") is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (as defined below) and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest or dividend feature (such as OID, debt instruments with PIK interest, equity investments with accruing or PIK dividend and zero coupon securities), accrued income that the Company has not yet received in cash.

Pre-incentive fee net investment income is expressed as a rate of return on the value of the Company's net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter and adjusted for any share issuances or repurchases during such quarter. Accordingly, as a result of the Offering, the Part One incentive fee was reduced by \$(593) for the three months ended June 30, 2017, determined by adjusting the value of net assets, as defined above, at March 31, 2017 by the daily weighted average of the Offering proceeds available to the Company during the three months ended June 30, 2017.

The incentive fee with respect to pre-incentive fee net income is 20.0% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 2.0% (which is 8.0% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor receives no incentive fee until the net investment income equals the hurdle rate of 2.0%, but then receives, as a "catch-up," 100.0% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, OFS Advisor will receive 20.0% of the pre-incentive fee net investment income.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a quarter in which the Company incurs a loss. For example, if the Company receives pre-incentive fee net investment income in excess of the quarterly minimum hurdle rate, the Company will pay the applicable incentive fee even if the Company has incurred a loss in that quarter due to realized and unrealized capital losses. The Company's net investment income used to calculate this part of the incentive fee is also included in the amount of the Company's gross assets used to calculate the base management fee. These calculations are appropriately prorated for any period of less than three months.

The second part ("Part Two") of the incentive fee (the "Capital Gain Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), commencing on December 31, 2012, and equals 20.0% of the Company's aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the Capital Gain Fee; provided that the incentive fee determined as of December 31, 2012, was calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation for the period beginning on the date of the Company's

election to be a BDC and ending December 31, 2012.

The Company accrues the Capital Gain Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. If, on a cumulative basis, the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation) decreases during a period, the Company will reverse any excess Capital Gain Fee previously accrued such that the amount of Capital Gains Fee accrued is no more than 20% of the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation). OFS Advisor has excluded from the Capital Gain Fee calculation any realized gain with respect to (1) the SBIC Acquisitions, and (2) the WM Asset Sale.

The Company incurred incentive fee expense of \$(22) and \$1,159 for the three and six months ended June 30, 2017, respectively. Incentive fees for the three and six months ended June 30, 2017, included Part One incentive fees (based on net investment income) of \$261 and \$1,159, respectively, which includes a share issue adjustment of \$(593) related to the Company's Offering, and Part Two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(283) and \$-0-, respectively. The Company incurred incentive fee expense of \$857 and \$1,590 for the three and six months ended June 30, 2016, respectively, which consisted of Part One incentive fees (based on net investment income) of \$857 and

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(Dollar amounts in thousands, except per share data)

\$1,729, respectively. Part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) were \$-0- and \$(139).

License Agreement: The Company entered into a license agreement with OFSAM under which OFSAM has agreed to grant the Company a non-exclusive, royalty-free license to use the name "OFS."

Administration Agreement: OFS Services, a wholly-owned subsidiary of OFSAM, furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to an Administration Agreement. Under the Administration Agreement, OFS Services performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records that the Company is required to maintain and preparing reports to its stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, OFS Services also provides managerial assistance on the Company's behalf to those portfolio companies that have accepted the Company's offer to provide such assistance. Payment under the Administration Agreement is equal to an amount based upon the Company's allocable portion of OFS Services's overhead in performing its obligations under the Administration Agreement, including, but not limited to, rent, information technology services and the Company's allocable portion of the cost of its officers, including its chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and their respective staffs.

Administration fee expense was \$307 and \$708 for the three and six months ended June 30, 2017, respectively. For the three and six months ended June 30, 2016, administration fee expense was \$326 and \$754, respectively.

Note 4. Investments

As of June 30, 2017, the Company had loans to 40 portfolio companies, of which 78% were senior secured loans and 22% were subordinated loans, at fair value, as well as equity investments in 17 of these portfolio companies. The Company also held an equity investment in two portfolio companies in which it did not hold a debt investment. At June 30, 2017, investments consisted of the following:

	Amortized Cost	Fair Value
Senior secured debt investments	\$ 208,376	\$ 202,764
Subordinated debt investments	61,840	56,320
Preferred equity	24,872	27,979
Common equity and warrants	5,608	9,845
Total	300,696	296,908

At June 30, 2017, all but one (domiciled in Canada) of the Company's investments, with an amortized cost and fair value of \$3,931 and \$4,029, respectively, were domiciled in the United States. Geographic composition is determined by the location of the corporate headquarters of the portfolio company. The industry compositions of the Company's portfolio were as follows:

	Amortized Cost	Fair Value
Administrative and Support and Waste Management and Remediation Services		
Security Systems Services (except Locksmiths)	\$ 19,352 6.4%	\$ 13,975 4.7%
Tour Operators	439 0.1	1,080 0.4
Arts, Entertainment, and Recreation		

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Fitness and Recreational Sports Centers Construction	14,884	4.9	14,903	5.0
Electrical Contractors and Other Wiring Installation Contractors	18,638	6.2	18,638	6.3
Education Services Colleges, Universities, and Professional Schools	5,559	1.8	4,468	1.5
Finance and Insurance Insurance Agencies and Brokerages	17,360	5.8	17,538	5.9
Offices of Real Estate Agents and Brokers	3,931	1.3	4,029	1.4

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OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

	Amortized Cost	Fair Value
Health Care and Social Assistance		
Medical Laboratories	4,280	